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PAPERS
ON
BANKING & FINANCE

BY A BANK MANAGER

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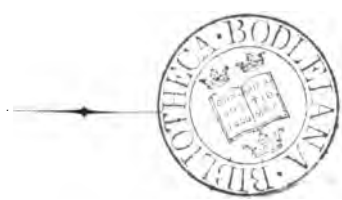

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PREFACE.

THE following pages are placed before the Public in the hope that practical attention may be called to some of the subjects discussed.

Where critical reference has been made to existing Banking arrangements, it is to the underlying principles on which these are based that such remarks apply, and not to the superstructure of management, which in our Banks, as a rule, is admirably conducted.

The important nature of the questions treated, however imperfectly, by the writer, will, he trusts, be considered a sufficient apology for bringing them forward in the present form; and on that account also he begs his readers to overlook many shortcomings, of which no one can be more conscious than

THE AUTHOR.

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GENERAL SURVEY OF THE ENGLISH BANKING SYSTEM.

THE English Banking System is divided into two distinct and well recognized parts—the Joint-Stock and Private Banks. Around this nucleus cluster bill brokers and money lenders. Private banks are the root of English banking; for while they have existed since the days when goldsmiths received money to place in safe keeping, the others, with the exception of the Bank of England, are comparatively of recent origin. The joint-stock banks are the developed idea, the private banks the germ from which that

development has arisen; and, as in other things, the original germ becomes gradually lost in the growth to which it has given birth, so the private banks are being gradually absorbed by their more powerful offspring; and the day, probably, is not very far distant, when they shall have ceased to exist. In Scotland, where joint-stock banking has been largely developed, private banks are unknown; and, in proportion to its extension in England, will their gradual extinction be. Already many of them have been bought up and incorporated with the joint-stock banks, and the process is continually being carried on. As a rule, the towns of England are the main supporters of the joint-stock banks, the counties of the private banks. The latter having been long established, have gathered gradually around them the gentry and farmers. The joint-stock banks, on the other hand, find their main supporters among the

town manufacturing populations. This, however, does not hold good in Scotland, where the great joint-stock banks have struck their roots deeply through all the various strata of society, and have numerous branches in places which would not in England be considered suitable for a bank, such as small towns of a few thousand inhabitants. Having familiarised the people, through means of their £1-note circulation, with the advantages of banking and of keeping banking accounts, they have tapped a hidden stream of wealth almost unknown to the English banker; small as regards the individual amount deposited; but immense in the aggregate; such as the savings of small shopkeepers or tradesmen, the wages of farm labourers, and other deposits of a similar character. Scotland is indebted for much of its prosperity to its joint-stock banks; England, on the contrary, has been in the past more indebted to its

private bankers—men, as a rule, of high character and liberal mind, who have well sustained their part, and even yet, in spite of the enormous development of the joint-stock banks, possessing a large share of its general banking business: indeed, many persons are to be found who prefer to keep their banking accounts with a private banker; because they consider their transactions are much less liable to suffer from his inspection than from that of the directors of a joint-stock bank. To a certain extent, this may be correct; but much popular error exists on the subject of bank directors inspecting the accounts of their customers. As a rule, this is not done unless some exceptional circumstance render it necessary. Of course, all well-regulated joint-stock banks prepare statements for the inspection of directors, but in aggregate sums; for instance, overdrawn accounts are placed before the board; but not the in-

dividual items which compose such an account. Some banks carry this regard for their customers wishes so far, as to have special rules, empowering the manager *only* to receive or refuse bills of exchange; and in this case, the directors would usually see only the aggregate amount of bills under discount for any particular person, necessarily having the power to obtain the names of the individual acceptors of such bills, if they considered it requisite in any particular instance. The essential distinction, however, between the two classes of banks is of much more importance, the joint-stock bank from its very nature is a public institution. Its list of shareholders, who are responsible for meeting its pecuniary liabilities; who are the guarantors that money entrusted to its care shall be repaid, or notes issued by it redeemed, are publicly exhibited; its accounts are audited by some one ap-

pointed by the shareholders, and a balance-sheet of its assets and liabilities periodically issued. A private bank, on the contrary, publishes no statement of its assets and liabilities, its accounts are not publicly audited, its position therefore is only known to the partner or partners; probably even the clerks employed know little or nothing of its available resources, or actual position. Such a distinctive feature as publicity tells largely in favour of joint-stock banks; and, besides, its shareholders are naturally interested in increasing its business, by bringing not only their own accounts, but in inducing others to do so also. If we could see a map of Great Britain and Ireland, with lines drawn from one bank to another, and to their various branches, we should find the whole country interlaced with an intricate system of lines, far more confused and numerous than any railway map. These are the financial nerves

of the country, the rails over which roll the monetary trains of British commerce; for what the iron way does for the material wealth of England, its banking system does for the representative of that wealth—money. It would be seen from such a map, that the converging point of all the lines was London; and that there were 403 banks in Great Britain and Ireland.* These 403 banks, having 2,250 branches and sub-branches, are divided as follows:—in England and Wales, 382 banks, of which 271 are private, and 111 joint-stock; in Scotland, 12 joint-stock banks; and in Ireland, 9; the 111 English joint-stock banks have 947 branches; the 271 English private banks, 290; the 12 Scotch banks, 741; and the 9 Irish banks, 272. Head offices and branches together, 2,653 establishments in Great Britain and Ireland are open for the purpose of carrying on the business of banking.

* 1869.

The 111 English joint-stock banks have an average of nearly 9 branches each; the 271 English private banks an average of one branch each; the 12 Scotch banks average 61 branches each; and the 9 Irish banks 30 branches each. In England there is a bank or branch of a bank for every 12,000 people; in Scotland one for every 4,000; and in Ireland one for every 21,000.

The English joint-stock banks have called-up capital to the extent of £41,000,000; this includes the 14½ millions of the Bank of England. The Scotch banks have called-up 9½ millions, and the Irish rather more than 6 millions. Including the Bank of England, the 111 English joint-stock banks each possess an average capital of about £372,000, excluding the Bank of England £243,000; the 12 Scotch banks have each an average capital of £790,000; and each of the 9 Irish banks about £690,000. The English joint-stock

banks possess £2 banking capital for each individual of England's twenty millions of people; Scotland £3 for each of her three millions; and Ireland £1 for each of her six millions. We must remember, however, that the capital of the 271 private bankers cannot, from the absence of returns on the subject, be reckoned in any estimate formed of the amount of capital called into operation for banking purposes in England; but, making allowance for this, there can be no doubt that Scotland, in proportion to her population, both in the number of banking offices, and in money employed in the business of banking, is far a-head of both England and Ireland. It is to Scotland therefore that we must look for banking in its most developed form; and it may be useful to note in the sequel some of the causes which have led to this development in that country.

The fixed issues of banks in the United

Kingdom at the close of the year 1868 were as follows :—

Bank of England £15,000,000	
126 Private Banks in England and Wales...	4,042,626
56 Joint-Stock Banks ditto ...	2,738,640
Scotch Banks	2,749,271
Irish Banks	6,354,494
Total fixed issue of Banks in the United Kingdom, October, 1868	£30,885,031

But in addition to this we have an issue of notes by the Bank of England against bullion held, which will average eight millions more than its fixed issue of 15 millions, making its general issue of notes 23 millions. The English private banks have an average issue of about 3 millions only, against their fixed issue of 4 millions. The English joint stock banks issue up to a little under their fixed amount; so do the Irish banks; and the Scotch banks maintain an average issue of $4\frac{1}{2}$ millions, against their

$2\frac{3}{4}$ millions of fixed issue.* This extra issue of the Scotch banks is against bullion held, making in all a total average note circulation for the United Kingdom of 39 millions. All the issuing banks in these three countries must pay gold to note holders when asked for. Taking, for illustration, the respective population of these countries, and supposing each individual of these populations to be a note holder, then, as Scotland's population is 3 millions, and note issue $4\frac{1}{2}$ millions; Ireland's 6 millions, and note issue 6 millions; England 20 millions, and note issue 29 millions; the Scotch banks are liable to each member of the population for £1 10s. in gold, the Irish for £1, and the English about £1 10s. We should expect, therefore, to find that as England and Scotland, relatively, have nearly similar liabilities in gold to note

* Average taken for 1865-6-7-8.

holders, that these two countries would not present any marked features of difference. We find, however, that in Scotland gold is scarcely ever asked for from the banks, and, indeed, that it forms a very small part of the national currency; that the notes of the Scotch banks for so small a sum as £1 are deemed amply sufficient for all ordinary purposes; and that a general run for gold, or pressure for that metal, is almost unknown. In England, on the contrary, we find a great demand for gold, frequently culminating in panic, and yet an immense gold circulation. Whence comes such a difference between two countries, having nearly the same relative liabilities in notes and gold? Simply because the English people have not that confidence in their banks which the Scotch have, and because they have been taught to demand payment from their banks in gold. The Scotch have

never been taught to demand gold in payment from their bankers, and they very rarely do so. Their £1 notes have weaned them from its use, and the Scotch banks having long called up large capitals, have, consequently, stood firm under circumstances where banks of smaller capital would have succumbed. Hence they enjoy national confidence.

If a run ever takes place on a Scotch bank, the money is merely removed from one bank to place it in another. The general confidence in the banks remains unshaken; and even if a general distrust of the banks, and a run for gold on all should occur, the points of attack are so numerous, that little damage would ensue. But when we remember, that out of England's 29 millions of notes, which her people have been taught to demand gold for, one bank, the Bank of England, is liable for 23 millions, it is evident that, in runs for

gold there, we have a condition of things which must produce mischief; and the frightful panics of the English financial system bear witness only too faithfully to this result.

The reserved funds of the English joint-stock banks are about 11½ millions, being between one-third and one-fourth of their called-up capital. This includes, however, the reserve of the Bank of England. Excluding this, the others have a reserve of about 8 millions, or nearly one-third of their capital; making, apart from the Bank of England, an average reserve fund to each English joint-stock bank of £75,000. The 12 Scotch banks have reserved funds to the extent of 2½ millions, or about one-fourth of their capital; making an average reserve of £216,000 each. The nine Irish Banks have a reserve of £2.769,000, or nearly one-half their capital; an average reserve for each of more than £300,000. One million of this reserve,

however, belongs to the Bank of Ireland, leaving the remaining eight banks with an average reserve of about £213,000 each; about the same as the Scotch banks.

The public liabilities of the Scotch banks are about seventy millions. Their capital and reserves amount to twelve millions, or one-sixth of such liabilities. The public liabilities of the Bank of England are about 50 millions. The capital and reserves amount to nearly 18 millions, or one-third of the liabilities. The Scotch banks and the bank of England have long enjoyed national confidence, induced by the fact that they have long held large capitals. Thus only are they strong; and that strength has been shown by the rock-like firmness with which they have endured the testing proof of time. They have never paid high dividends. The large capitals, the foundation on which they have securely built, do not

permit it. Many of the English joint-stock banks, in proportion to their liabilities, have not called-up large capitals. If Scotland with three millions of people requires 9½ millions of banking capital to work properly, England with a population seven times that of Scotland, by the same rule, should have sixty-six millions. What is the fact. She has 41 millions from her joint-stock banks, leaving 25 millions short. After making allowance for the capital of the private bankers, the probability is that the English joint-stock banks are working with *at least* 12 millions less than Scotch experience proves to be necessary. As the Bank of England has a large called-up capital, it is to the other joint-stock banks that we must look for this deficiency of banking power.

The London banks being placed at the point where financial pressure or panic is most felt, and having large public liabilities,

might have been supposed to require large proportionate capitals. It does not appear, however, that all of them consider this essential. If we take the leading London banks, we find in two cases capital and reserves between one-seventh and one-eighth of their liabilities; one with capital and reserves equal to one-ninth of its liabilities; and another with capital and reserves equal to one-eleventh its liabilities. Were the rule of a late eminent authority (Mr. Gilbart) followed here, namely, capital (may we add, in these instances, including reserves) equal to one-third of liabilities, these four leading London banks alone would absorb much more than the 12 millions deficiency of banking capital before referred to. This is not confined, however, to London. The principle of working banks with small capitals and large liabilities is found also in the provinces. These banks pay large dividends. It does not appear, however, that large divi-

dends have been able to create in England that national confidence in the banks as a whole, which is possessed in such an eminent degree by the Bank of England and Scotch banks, which pay moderate dividends, but have always held large capitals. A large proportionate capital, therefore, seems essential to secure perfect national confidence in a bank. The Scotch banks, and Bank of England, have long held large capitals, towards which their liabilities are gradually coming up. The other banks, of which we speak, have called up small capitals, with the object, apparently, of gradually coming up to their liabilities. We trust that no untoward event, such as a protracted foreign war engaged in by this country may ever test the wisdom of a system which sustains large public liabilities with small capitals. In such a war gold would be drained rapidly out of England; the public

would find other and more profitable investments; and the large deposits of the English bankers would quickly disappear. Besides, it ought to be remembered that the Scotch banks find it necessary to have large paid-up capitals in a country which receives freely the paper currency of its banks; where gold is rarely asked for; where panics are almost unknown; and where the banks are considered almost as stable as the hills. But many of the English bankers, placing correct banking principles on one side, have called up small capitals in England, where banks by no means possess national confidence; where panics are periodical; where a large gold currency is considered essential; and where runs for gold are common.

The number of persons connected with banks in Scotland as shareholders is about 12,000. In proportion to population, we

should expect to find in England seven times this number; it is, however, only about 40,000. In Scotland and Ireland much greater uniformity exists among the banks than in England, where no kind of confederated system exists; each bank, public and private, fights for its own hand. The same refreshing variety pervades its note circulation; some banks are allowed to issue notes, some are not; some are issuing on security, that of their shareholders; others, private bankers, on the credit of the partners. The Bank of England's fixed issue is £15,000,000, and to any extent against gold. But when it is considered necessary, the Bank of England has an Act of Parliament suspended in order to issue beyond its *fixed* amount. All the banks may receive as large an amount of public deposits as they can get without the law requiring any equilibrium to be maintained between the amount of capital

paid-up and such liabilities. Hence the temptation to employ these deposits where capital should be used; and hence the occasional smash of a bank, with very great public liabilities, and comparatively small paid-up capital. One great aim of English joint-stock banks being to pay large dividends; of course the smaller amount of capital called-up, the larger will be the dividend paid, the profits being spread over a smaller surface. The English joint-stock banks have thus, there is reason to fear, come to be regarded largely as institutions for the manufacture of high dividends. We fear it may be said of too many of them, with some degree of truth, that they work at high pressure, with an occasional burst. People denounce the whole system, the flutter subsides, and the dividend movement proceeds as before.

There is very little of joint or concerted

action on the part of English bankers. In Scotland, on the contrary, the banks work jointly, and the result is, one compact homogeneous system. In England, the people, by erroneous legislation, have been taught to look upon a gold circulation as essential. In Scotland, the people, having never been so taught, and having, justly, confidence in their bank notes, have been saved from the financial panics which have so frequently convulsed England: very largely through the determination of the public, and consequently bankers, to keep, to have, and to hold, gold, during times of pressure.

The centralization of all the English banks in London, through their agents there, might, if properly carried out, be much more developed for the general benefit. Take, for instance, the Clearing House as an illustration of the value of this centralization. Were it not for it, every

bank would itself have to collect the various cheques payable in all parts of Great Britain, which it daily receives. The great number of letters to be written to do this, and other expenses, are avoided by the simple expedient of sending them all daily to London, to be exchanged by the Banks' London agent at the Clearing House; so with the payment of bills; being mostly made payable at banks in London, they are collected by the London agent much more easily than if they were made payable all over the country. In this respect, the English banks have a more perfect organization than the Scotch; the Scotch having got into the way, a bad one, as we think, of making bills payable at their own houses, or at country branch banks, which, of course, have to be collected at much greater expense and trouble. But why, through such centralization in England, should we not be able to obtain greater

advantages? why, for instance, when a pressure exists in London for gold or Bank of England notes, should bankers there not be able to tell what country banks hold large amounts of gold or notes? Occasional pressure may exist in London, without the country generally being much affected. At such a time, were these banks communicated with, they could probably place in the hands of the Bank of England a large amount of gold and bank notes lying uselessly in the country. Why should bankers not be able to tell at once who are unsafe men in any particular district of the country; a very meagre idea on this point is at present obtained by writing to the banker of the district, in some isolated cases; but as such persons are well known to the banks, how much more would commercial safety be insured by bankers forwarding the names of such persons from their districts

to a central office in London, say every six months, where the several returns would be rearranged; bankers would then, by reference to such a return, be able to check such men all over the country from over-trading. Used exclusively for the private information of bankers, such a return would be of much value. Fluctuations in the Bank of England rate might to some extent be prevented by the first of these measures, and the attempt to check a drain of gold by an increase of a half per cent. in the rate instead of at least one per cent., would be less frequently experienced by the public. Anomalous as English banking is, in many respects, the note circulation is most so. There is absolutely no general principle whatever which is applied to the regulation of note issues. It is true, no bank can issue to any extent, but such issues are very partially distributed; and the acci-

dent of the bank's birth has more to do with the matter than principles. If it be necessary to see that a joint-stock bank which issues notes, is furnishing proper security to the public by causing it to publish statements of assets and liabilities, and the names of its numerous shareholders; much more is it necessary to see that a private banker, who has, perhaps, a larger circulation of notes, should furnish evidence of his ability to meet such liabilities; but, beyond stating the names of his partners (perhaps only four or five, or less), and the amount of his notes in circulation, he is not required to make further returns.

Then, again, if one joint-stock bank is allowed to issue notes, all such banks may reasonably claim the same privilege. But this is not conceded, only some banks are permitted to issue notes: but all may receive as much money from the public as they can

get without the law requiring that their paid-up capital bears some proportion to their public liability. What difference exists between the two liabilities, between issuing promises to pay in the shape of bank notes, and issuing promises to pay in the shape of bankers-deposit receipts for money lodged, it is difficult to see. The Bank of England is allowed a circulation of a very large amount against money lent to the Government by the Bank. On the same principle, should not every banker depositing Consols as security be allowed to issue notes; he has as truly lent money to the Government, and it is as truly his debtor as it is the debtor of the Bank of England. But the Executive replies, we refuse to accord bankers that privilege, and we shall not permit some banks to issue notes on any security whatever. We shall, however, allow the Bank of England a large fixed issue of notes, and to any further

extent against gold. We shall, to all intents and purposes, make it the sole bank of issue; and, having compelled the country to receive its notes, by making them a legal tender, we shall also enact that when gold is drawn out of the Bank of England, the Bank shall contract its note circulation exactly in the same proportion. It is true it will be rather awkward to have the circulation of the country so suddenly contracted, but you will have the happiness of knowing that the commercial atmosphere has been cleared, by a great number of houses finding themselves unable to meet their engagements. So says, in effect, the Act of 1844. The truth is, the whole system, or want of it, connected with the circulation of bank notes, demands reform. Either all banks, on proper security, should issue, or none; but such security being given, there should be no monopoly; but fair competition only. The public loses by

a monopoly in the issue of bank notes, for a bank which possesses an issue of notes can afford to transact its business cheaper than one which has no issue, the profit on the note circulation being large; if all banks possessed this privilege *equally*, the public would have to pay a smaller commission to the banker than at present. In Scotland, where a note issue is general, and where no one bank monopolises the issue of notes, no commission is charged on accounts, the profit on their notes being so large as to enable these banks to dispense with this charge. They have, consequently, numbers of people keeping accounts with them who are deterred from doing so in England by the high rates of commission charged by English bankers. Now, considering what a large aggregate amount of money the accounts of small tradesmen would represent; the vast benefits which would result to trade, could it be col-

lected by the banks, it follows that any system which prevents such deposits being collected, works not only against the banks, but against the general good. Were a note circulation free, with proper safeguards for the public security, English charges could, as in Scotland, be greatly reduced; a stream of wealth, at present neglected, would then flow into the banks from the tills of small tradesmen and others, and such deposits could not fail vastly to increase the power of the banks to foster every proper enterprise at a less cost than at present. We do not here speak of the large class who deposit their money in Savings Banks; great as that amount is, it could not fail to be exceeded by the deposits of those to whom we have referred. If the savings of artisans and others in Savings Banks amount to a large aggregate sum, how much larger would be the amount deposited by a class above them?

True, such balances could not, in many cases, remain long in the hands of any banker, but the amount itself is so large that it would undoubtedly leave a permanent residuum in the hands of the banks unaffected by the general drawings on the main fund. All this is at present lost, locked up in the thousands of little tills throughout the country; there it remains until the commercial traveller calls for payment of his firm's account; he is then often paid in silver or gold, to his great personal inconvenience and risk. Until he arrives, there it lies as uselessly as if its owner had buried it in the ground, like his ancestors generations ago. Such is the effect of a monopoly of note circulation. And what are the difficulties which prevent all banks issuing bank notes on proper security? Absolutely none whatever; no real difficulty, theoretically or practically, except the old obstacle—vested

interests. First, there is the Bank of England, which, although really a joint-stock bank, similar in essential points to its neighbours, has acted so long for the Government, has received so much public money on deposit, on which, by the way, it kindly allows no interest, and has been so long before the public as a State Bank, that people have come to regard its privileges as something, which it would be difficult, if not impossible, to modify. The special privileges given to the Bank of England, by making it almost the only bank of issue, have been productive, undoubtedly, of public loss, and it would be difficult to devise any financial scheme which has operated so injuriously for the country as the Bank Act of 1844; that Act provides that the Bank of England shall issue beyond a fixed amount of £14,000,000 ONLY AGAINST BULLION, as the bank's issue is always

largely above this sum, it follows that its notes above that limit must cease to be given out by the bank in the same proportion in which gold is withdrawn; this sudden withdrawal of notes from circulation causes money to become scarce, consequently dear; if the gold is still further withdrawn, the notes still further contract, the rate for money rises still higher—and eventually a panic is the result, with commercial failures scattering ruin and misery broadcast.

As the joint-stock and private banks issue to the extent of only five or six millions, and the Bank of England to twenty-three millions; the sudden compression of such a financial artery cannot but have disastrous results. Were this monopoly of circulation by one bank abolished, and every bank allowed to issue under certain guarantees for public security, it would become possible to prevent pressure, if not panic, in the

English money market: under present conditions it is simply impossible.

Had all banks an equal right to issue, the country would not lean on one bank mainly for its notes or gold, and in the common event of gold being required for exportation, it would be taken not from one bank, but many: thus pressure for the metal being widely distributed, could never have the deadly result which necessarily arises from a concentrated pressure on the Bank of England.

We find in England, then, a great number of banks with little joint or concerted action; a note circulation apparently scattered among many banks, but really monopolised by one. We find that the English banks collectively have failed to obtain that commanding position of national confidence enjoyed by the Scotch banks: and that such national confidence in the banks, coupled with a

circulation of £1 notes, by which less gold is required, frees Scotland largely from the disastrous panics so common in England—such panics being mainly the result of a system which makes gold largely its circulating medium, and which compels its principal bank of issue to withdraw its notes from the public in the same proportion that gold is withdrawn from its coffers, thus suddenly contracting the circulation of the country, with a result ruinous to individuals, and disastrous to its commerce.

ACCOMMODATION BILLS.

It would be difficult to overrate the value of the documents called Bills of Exchange, as commercial agents: for it is not too much to say that the great increase of trade witnessed in modern times has been largely aided by means of this invention. They are the bank notes of commerce, and represent, to a very large extent, the circulating medium of the world. The presence or absence of bills in connection with any particular country and England will shew pretty closely, in its main features, the extent of its trading power. Gold being the recognised representative of value, payments of commodities bought

abroad would be made in gold, failing other modes of settlement. Now, if we consider the expense and risk of transporting gold from one country to another, we shall see how easily a bill of exchange, payable abroad, may be forwarded instead of coin, and all expense of carriage and risk of transit of the metal avoided.

For the sake of the general reader, let us briefly consider what constitutes a Bill of Exchange. It is really only a promise or engagement by one person to pay at a certain time a specified sum in consideration of an advance made of goods, or money, or labour, by another. The man receiving the goods, or money, or labour, would not accept a bill if he had not actually received such equivalent value; and it seems impossible on such a basis that any improper use could be made of such a very plain and simple document. It is easily understood, and apparently

leaves no loophole by which a dishonest purpose could be conceived, or, if conceived, carried out—nor could it; and, therefore, an unscrupulous financier, abandoning all attempts at compromise, draws his bill on another able financier, to whom he has never forwarded, nor ever intends to forward, any goods or value whatsoever, but who mutually agree in this manner to assist each other. Such bill, when completed, is couched in the same language, and professes to have received value, and to represent a change of commodities, or money, or labour, from one man to another, precisely as the genuine bill does; the little difference being that the *bona fide* one really did what it professes to have done, that is, value passed as stated, and the other did not. And the two financiers aforesaid, being yet in the enjoyment of public confidence, find little difficulty in getting rid of this interesting document as a genuine bill.

These false bills, usually called accommodation bills, like spectres are ever dogging the footsteps of commerce, the terror of a steady trader and the horror of bankers. That this dread is well founded there can be no doubt; for while no risk, comparatively speaking, attaches to taking an ordinary bill as prospective payment of an account, seeing the value referred to on the bill is real; and has been, or will be, realised; very great risk, indeed, must necessarily be attached to receiving an accommodation bill which represents little or nothing more than the value of the stamp and paper on which it is written. The device is not a costly one, a little paper, a little ink, a great lie—and gold is the result. Why such a result? Because the public approve of such a transmutation process—certainly not, merely because no proper means of detecting them exists, that is, systematically exists; one may be now

and then pounced upon by the banker, and dragged out to the light, but that only suffices to convince him that a vast under-current of such nefarious transactions is continually circling around him, whose depths he can never hope to fathom, and whose limits he can but faintly comprehend. The richest lode of this valuable article is, however, struck when some commercial house, whose wide-reaching arms had spread far around, comes to grief; then, indeed, its hidden sources of wealth are exposed to the cruel inspection of a too critical public by the Bankruptcy Court, and the highly-respectable firm is found to have floated long, mayhap for many years, on a vast, but comparatively inexpensive, ocean of paper, the trifling cost of which represents its necessary outlay in the venture; and the value which it denotes, and which able financiers have received and spent, is made good, of course, by that

patient and long-suffering British public, which has such capacious pockets, and such unbounded trust in the goodness of human nature.

Now, we are bold enough to believe that it is not impossible to devise some means by which this highly ingenious piece of financing may be, to a very considerable extent, checked. Is it too much to expect that the law, which is framed avowedly to protect honesty, and to punish and restrain dishonesty, should refuse to allow such accommodation bills to use the words "For value received," inasmuch as no value was ever, in any shape or form whatever, so "received?" Is it too much to expect that the law should refuse to allow an unprincipled trader to issue broadcast among the public, ignorant of his true position, professedly genuine bills of exchange, which are mere counterfeits, and do not represent a farthing

of value? In short, is it too much to hope that the use of the words "For value received" on any bill, where value was not really given, shall be declared by law to be *felony*, as being simply another and more subtle manner of raising money by false pretences? Such a course, we venture to think, would check the growth of this commercial parasite, promote a healthier feeling in trading circles generally, and rid the public of a nuisance, from the evil effects of which it has largely and frequently suffered. So chronic has a state of accommodation bills become, however unhealthy it may be, that it is, we fear, looked upon more as a normal condition of affairs, than as one which may be, and, on the ground of morality alone, ought to be suppressed.

It is considered a kind of necessary accompaniment of our system of bills, and almost, if not quite, irrepressible. And, of course,

there is the peculiar class above referred to, to whom a continuance of the present state of things is directly beneficial, and whose interest it is to decry any attempt which may be made to remedy the evil. It may, therefore, be taken for granted that objections will be taken by this class especially to prevent any measure, such as the one here suggested, being carried out; and as it is pretty plain what kind of objections these will be, let us endeavour to consider them in the manner in which they will probably be raised; and having endeavoured to meet such objections, we shall afterwards look at some of the advantages which would accrue to the public from its being adopted and put in practice.

The remedy proposed, then, is that where value has not been given, as stated on any bill of exchange, that it shall be made felony to draw or accept such a bill "for value

received;" so that those words shall be used in their real and proper sense only; namely, where value has actually been given, and where the bill of exchange represents an actual *bona fide* transaction of the amount named on such bills.

Objection 1st. The evil, if an evil, is trivial in its effects.

2nd. Difficulty would arise in many cases in deciding whether the words "for value received" were properly used or not.

3rd. Persons who did not intend to defraud would be entrapped by such a remedy.

4th. Resort to this practice has saved firms and individuals from failure.

5th. The removal of this prop would cause some existing firms to fail.

6th. Friends of an embarrassed firm could not then "lend them their name."

Objection 1st. "The evil, if an evil, is

trivial in its effects." Let the bankers answer this. Have they not frequently seen an industrious tradesman seduced into "lending his name," with a result, in many cases, of large pecuniary loss, and in some, ruin? Have they not known, nay, do they not know, of firms with a good front to the world, whom they believe to be bolstering up their credit by this means? Let the merchant answer. Is not this evil one which he knows to be of vast extent, brought frequently under his notice, to which the most baneful results are attached? Let the Bankruptcy Court answer. One illustration from the Leeds Court will suffice, where, towards the end of 1869, a firm appeared who had issued accommodation bills in three years to the extent of nearly £120,000!

2nd. "Difficulty would arise in some cases in distinguishing whether the words 'for value received' had been properly used or

not." We grant it would. We see no reason why this should form an exception to other judicial cases, in many of which occasional difficulties arise as to a correct interpretation of certain words or acts; but we should certainly object to the abolition of our existing criminal courts of law on the ground that it is sometimes difficult for a jury to decide whether an accused person is guilty or not; nay, we admit the possibility, and take the risk of an innocent person being wrongfully convicted, on the general ground that such courts are on the whole of great service, and that the occasional difficulties with which they have to contend, and the injustice they may sometimes inflict, are vastly outdone by the good which is the result on the whole. And on precisely the same principle we contend that, while difficulties would occasionally arise on this, as on other points dealt with by law, the general result would

be highly beneficial. Neither must it be forgotten that a vast number of cases would arise, looking at present experience, about which no doubt would exist; and, while the dread of bringing themselves within reach of the law on a charge of felony would largely deter this latter class, it would make the former more careful in future transactions; so that in the minds of both classes a healthy fear of compromising themselves would be engendered.

Objection 3rd. "Persons who did not intend to defraud would be entrapped by such a remedy." This has been partly met in the previous objection; and, granting such occasional cases, we do not believe that other persons would be wrongfully implicated; for after fair notice had been given to the public that an Act, treating an accommodation bill as a felony, would come into operation at a specified time after such

notice, it must be a remarkable intelligence, indeed, which could draw an accommodation bill, value neither given nor received, and then plead no intention to defraud. That injured person, we presume, would form one of a class not unknown to bankers, who plead inability from illness to come to the bank with cash to reduce their overdrawn accounts; cheques, however, continuing to make their appearance, as usual.

Objection 4th. "Resort to this practice has saved firms from failure." Perhaps so; and what is the principle, or rather lack of principle, on which they have acted, to save themselves? Precisely that on which a betting cashier proceeds to speculate with money intrusted to his care, in the desperate hope that by a lucky hit he may retrieve himself, and be able to pay his debts. What have such persons done? Being insolvent, as honest men, they ought to have stopped;

but rather than do so, they have deliberately resolved to let the public take all the risk of loss, in their endeavour to save themselves, and have issued and made their payments by means of these fictitious bills, which did not represent one farthing of value, and the payment of which, at maturity, was a very doubtful possibility. If markets improved, and their deteriorated stock increased in value, or something equally uncertain occurred, then all would be right; if not, then the loss of the money represented by such bills would fall on the public. What, to them, are the hearts which such selfish acts to save themselves have broken? What the blasted hopes and the blighted lives? Were they justified in abusing the confidence of the public, which was ignorant of their real position? Were they justified in so speculating, and thus saving themselves from loss? Let the answer come from the sufferers. Would you,

we ask, have taken such bills had you known truly the position of such a firm, and been made aware of the wild career of speculation on which they had entered, in the hope of improving it? Can we doubt what that answer would be? Are we not then justified in saying, that the same principle on which the dishonest cashier is acting, is acted upon here also? And no objection, we venture to say, which rests on such a foundation, can stand for a moment.

Objection 5. "The removal of this prop would cause some firms to fail." Very probably it would; and if the firm requires such a crutch to keep it up, it is very infirm indeed, and ought to come down. No one blames the New Bankruptcy Act because it flooded the pages of the "Gazette" with a list of bankrupts, the like of which nobody in this generation ever witnessed before, and which, we feel quite sure, nobody in any

generation would ever wish to witness again. Men breathe more freely after such a tornado has swept past, and are thankful for an Act which has cleared the commercial atmosphere and rid the trading community of a host of vampires which sustained themselves merely by weakening others. We say, then, that with such an illustration before us, a further wiping out of firms supported by accommodation bills would act precisely on the same principle, and would, in all respects, improve the commercial position and feeling of the community.

Objection 6. "Persons willing to assist embarrassed firms could not then do so." If by the word persons is here meant people who are not possessed of any property, and are yet willing to have bills drawn upon them with the philanthropic wish indicated in this objection, namely, to assist an equally penniless concern; we think, for the sake of

the public and their own, it is extremely desirable that such an amiable weakness should be placed under restraint. If, however, by the word persons is meant those who are really able, through means which they possess, to assist at such a time, such a mode of doing so is not only essentially wrong in principle, and most injurious in its results, but, in their case, altogether unnecessary; inasmuch as no banker would refuse to make reasonable advances for a time to any of his clients so temporarily embarrassed, if secured by a person really worth having in such a capacity. And so far as convenience goes, it is certainly more convenient that an overdraft on the firm's account should be thus allowed, than that all the trouble of continually renewed accommodation bills should be undertaken. And, as a matter of safety, such a person is more likely to have an advance made on his

security by the banker, rapidly paid off on the first opportunity, than he is likely to have it paid under a system of private bills known to himself and the firm only. And in connection with this, it must be remembered, that a really substantial man, with the object of assisting an embarrassed firm, occasionally accepting an accommodation bill in their favour, does not by any means redeem the improper character of the transaction. That bill goes forth to the commercial world, assuring all into whose hands it comes that the acceptor actually received the value it represents, which is false. It states that the value so received was equal to the amount named on the bill, which is also false, and it declares itself to be a *bona fide* trade bill, which is also false. Such an act is as indefensible as that of a bank issuing more notes than it was legally allowed to do, and concealing the fact on the ground that it

possessed a large amount of property in the shape of capital, still uncalled up from its shareholders. Both such notes and such bills represent real property, and profess to be genuine, which they are not; and while the law would condemn the notes so issued, in this concealed manner, on the same ground we condemn the issue of such fictitious bills.

We have thus endeavoured to deal with the objections likely to be raised to such a proposed suppression of accommodation bills by persons interested in their continuance, and by others who from one motive or other would object to such a step. And now let us look at some of the reasons which call upon us to abolish such an evil. We shall state a few of these.

1st. It is an untruthful and improper means of raising money.

2nd. It places industry and honesty at a great disadvantage.

3rd. Insolvent firms are kept up by it.

4th. It is productive of much injury to trade, which its abolition would directly benefit.

1st. "It is an untruthful and improper means of raising money." We think it may be taken for granted, that the proposition first stated here will be generally assented to. What is it but a lie to write, sign, and issue to the world such a bill. It declares broadly, that in consideration of certain value, which has been received by its acceptor, he agrees to pay at a certain time the equivalent of such value. If words mean anything—and, even in our day, they may still be logically held to mean something—then, seeing that no value was ever received, or intended to be received, either when the bill was dated, or at a future time; this, we say, is an untruth of the most glaring

and shameless character, for which no excuse of expediency can atone. It may be said that these words are merely formal. We utterly refuse to accept such an explanation. Words such as these are not formalities; but were originally, and still are, meant to express acts; and, if no meaning is to attach to such declarations, if these expressions of "value received" are formalities, then the sooner such a piece of mere formality is altered, so as to protect the public, the better it will be for all parties. But, the truth is, there can be no defence raised, it is obviously a false statement; wilfully so, and that of the most pernicious and hurtful kind, and that such words are improperly used there can be no doubt. For what purpose are such bills so worded? Purposely to deceive the persons into whose hands they may come. And why such deception? Because those who issue know perfectly well, that if their

true nature was known, they would not be able to raise money by them, because no one would take them, and therefore it is necessary that the form of the genuine bill should be adopted, in order that no such difficulties may arise.

We call coining base money fraudulent, and punish it severely. Is not coining base bills identical with such a crime? For, as the coiner skilfully adopts the appearance of the real coin, so, on exactly the same principle, does the issuer of an accommodation bill adopt the appearance and words of the genuine document. We submit, then, that on these grounds we are justified, relative to such transactions, in endorsing the statement made by Mr. Commissioner Ayrton, at Leeds, not long ago, that they are clearly moral frauds, and separated by very thin partitions indeed from being legal frauds also.

2nd. "It places honesty and industry at a most unfair disadvantage." If this be so (and we hope to show it is), this is, necessarily, a powerful reason why such an undue advantage should be removed. It is not because commercial men are dishonest that our trade is great, but because the opposite is the case; and, therefore, every obstacle in the path of the honest hard-working merchant, which has wrong as its basis, ought to be removed. It is not the persons who issue accommodation bills who should receive legal help, but those who, refusing steadily to lend themselves to any underhand transactions of this kind, are labouring, with clear conscience and clean hands, creditably to bear themselves before the world; and while no sufficient check is imposed on such issue of worthless bills, on which money can be raised and goods purchased, how is it possible that fair competi-

tion can exist between two such opposite classes? The one creates capital by hard work, slowly and certainly; the other draws his false bills, gets them accepted (neither the drawer nor the acceptor are yet suspected of such practices), no difficulty is experienced in getting them turned into cash; goods are purchased, and are sold, probably, at a price which the man who would not stoop to such a course can never honestly hope to compete with. Under such circumstances, is it not the duty of the law to prevent such an instrument, ready-made, as these bills, being placed in the hands of those who use them merely to gain an unprincipled advantage over their honest fellow traders? What have issuers of these bills to lose? Nothing. The capital they thus raise, like the coiners' bad coin, costs little; they can, therefore, afford to undersell, and to speculate recklessly, in a manner which cuts

the ground from beneath the feet of their neighbours, who, having to make their capital in a more conscientious manner, cannot afford either to undersell or enter into such speculations. We submit, then, that the system of accommodation bills places the honest trader at a great disadvantage.

3rd. "Insolvent firms are sustained by the practice." It is clear that without funds no firm can carry on its business for any length of time without having recourse to expedients which to some extent make up for the want. Hence, this system is largely resorted to by houses really insolvent, and whose partners do not possess principle enough to prevent it. Bills are issued of this kind; engagements are met. As the bills mature they are in turn met by new bills being again issued, until the firm is something like a large spider surrounded by a web of bills, in which the public have

been caught, and on whom the firm feeds, until a high rate of discount, when picked bills only can be negociated, blows the whole affair to the winds, and the so-called firm dissolves and disappears, leaving in its train a mass of nothing but unpaid debts, which the public are compelled to lose. Now, if it was declared felony to issue such bills, a powerful check would be imposed on the growth of such mushroom houses, and much saving would result to the commercial community. It is they who finally pay for such dishonest transactions. It is at their cost the whole fabric is sustained, and at their cost it finally falls. Undoubtedly, even with such a preventive measure as felony, men would be found bold enough, and bad enough, to run the risk, in the hope of not being detected, as with other crimes; but it cannot be denied that by this means a large number of such offenders would be

deterred, who at present, through the absence of any restraining fear whatever, rush at once into such courses; and it is undoubtedly the case, that while the stoppage of many firms at first would have resulted in but slight loss to the public, when they entered on this practice, in the hope of becoming better off, their liabilities have been immensely increased.

4th. "It is productive of much harm to trade, which its abolition would directly benefit." This proposition follows as the logical result of the others which we have named; but it is not only the monetary loss arising from such bills being issued with comparative impunity; it is not only that it is dishonest in principle and in fact; not only that it reduces honest industry to a discount, and places a premium on knavery; not only that it enables an insolvent firm to increase its liabilities, in the desperate hope

of emerging from them at the public risk, but it is chiefly an evil of a moral, and, consequently, more insidious and dangerous character, which we here notice as its result. We know how prone men are to follow a bad pattern, rather than copy a good model; and it is the fatal hope which in this way offers a chance to the embarrassed of retrieving themselves, which becomes a source of great danger, from the fact, that while the bad are thus permitted to act, the *good* may be led into it; and the large class which is ever oscillating between the two, on the opportunity presenting itself, at once slides into the practice.

Thus the evil is continually increasing, and not only reproducing, but spreading itself by this force of example, the dangers of which are increased by extreme competition in business, and the easy and unrestrained manner in which it can be done.

We do not say that legislation can make men honest, nor do we say that it can prevent them making bad debts; but we do say that it can, and that it ought to, restrain men who have nothing to lose from taking courses by means of which they improperly obtain money on false pretences, finally inflicting on the community large pecuniary loss, and embarrassing other firms through their reckless conduct, who are not unfrequently involved in ruin, not from any misconduct of their own, but merely through the vicious practice now under notice; and as every day increases the crowd of men in trade, all struggling for the same object, there are good grounds for believing that, unchecked, this practice will yet attain proportions of even greater dimensions.

Its abolition would benefit trade, by creating a feeling of greater confidence between business men than at present

exists, by the knowledge that such a searching test was applied to unprincipled firms whom the law would then be able to reach. It would also create a better moral tone than can exist when such transactions are winked at by law, and the perpetrators escape almost with impunity, or are so dealt with that it is valueless as a preventive.

We have thus looked at the objections which will probably be urged against the adoption of the course here suggested, and the reasons in favour of such a step being taken. If we analyse the objections, we find that they are either wrong in principle, or unsupported by facts; and would, to a very large extent, take their rise from persons directly interested in keeping up such a state of things for their own benefit. If we analyse the reasons in favour of adopting such a remedy, we find that accommodation bills are untruthful and dishonest, operating

directly against the hard-working and honest merchant; and in their results, moral and otherwise, disastrous to trade, and to the community generally.

£1 NOTES.

THE prosperity of Scotland, financially and otherwise, has been a frequent subject of remark; much of this is doubtless due to the high intelligence of her people; the result mainly of an excellent system of education which they have long enjoyed; much to her mineral wealth—her coal, iron, and the numberless industries to which these have led in engineering, shipbuilding, manufactures, and otherwise. The latter have, to a large extent, been developed and carried on by a system of economising the spare capital of the country, and distributing it where

required to promote such undertakings, by means of banking arrangements, which, taken all in all, are probably unequalled, and certainly not surpassed, in any country. Generally speaking, the successful result of these banking arrangements has been mainly due to the fact, that the first effort of Scotch Banks has been, by a large paid-up capital, to obtain the confidence of the people; so that their circulation of notes might be freely received, wherever offered in any part of the country. Dividends have been, as a consequence of such large capitals, comparatively small, but confidence has been induced by this very fact; and a large issue of notes has further enabled the banks to develope the material resources of the country.

This note issue is received readily in consequence of the high position such banks hold in Scotland; and the immense

number of branches possessed by the Scotch banks have carried the benefits of such a state of things into the remotest districts of the country, collecting everywhere the spare money of the humblest classes, allowing interest on what would otherwise have been lying useless in holes and corners, and lending it out to men of industry in perhaps the very same district, on the simple guarantee of some more wealthy and friendly neighbour, at a rate which not only enables the bank to pay the actual owner a fair per centage, but leaves it also a profit. Another great advantage has been, that in consequence of the large profits arising from this note issue, they are enabled to make their charges for conducting accounts much less than the English banks, and this, of course, has brought a larger proportion of persons to keep banking accounts in Scotland than in England.

The free reception of notes issued by the Scotch banks, as a result of public confidence, prevents another evil—the undue presence of gold as a circulating medium, which is not only more difficult to maintain than notes, but is exposed to a continual and expensive deterioration, not to mention the expense of coining, which is also considerable. The Scotch have never been taught the pernicious practice of using gold for the purposes of *home* circulation. Hence in Scotland gold forms a very small portion of the circulating medium, and it is further decreased by the notes there being issued for so small a sum as £1, instead of £5, as in England. It will thus be seen that a gold circulation is scarcely needed; and the large expense resulting from the English practice of making gold the representative of value for sums below £5 is almost entirely avoided.

Bank notes for £1 are not unknown in England; up to the year 1829 they were issued in the ordinary course, with occasional restrictions. The Government of that day attributed the panic of 1825 to speculation, fostered by the country banks; and, however erroneous such a view may have been, it was considered at that time a sufficient cause to prevent the issue of notes for a less sum than £5. The fallacy of £1 notes having brought on the panic of 1825, was made pretty evident by the occurrence of another panic in 1836. Again the country note circulation was blamed; it was now said to be excessive, especially that of the joint-stock banks. The amount of country notes in circulation was unknown in 1825, and a rough calculation only of the amount could be arrived at from the number of stamps issued from the Stamp Office. In order to remedy this defect, the then Chancellor of

the Exchequer, in 1833, obtained an Act which compelled all banks issuing notes to make returns to the Stamp Office. These returns shewed that the circulation of the country notes had increased, and to this was at once ascribed the speculation and panic of 1836. The unfortunate notes, however, were again blamed when, in 1839, another panic arrived. The circulation was now said to be ill-regulated; a Committee of the House of Commons was appointed to investigate the state of the law with reference to banks of issue, and an Act was consequently passed, requiring weekly returns of their circulation from every bank of issue. So matters rested until 1844, when the celebrated Act of that year was passed, which has since continued to control the issues.

If we examine fairly the charges which were thus the means of having the £1 note issue withdrawn, we shall find that this kind

of currency was by no means to blame. The truth is that at that time the question of the currency was experimental; and however proper or improper the principle by which the issue of notes may have been regulated, the £1 feature of it was eagerly caught up, and blamed for causing a panic; but the absurdity of such a charge was fully shewn shortly afterwards, and has been frequently shewn since by the recurrence of panics of all degrees of intensity.

Let us shortly consider what change the abolition of these notes really effected, and what benefits we should probably gain by their re-adoption. In the first place, as transactions cannot altogether be carried on by means of notes of the value of £5, because many of them are for sums under that amount, it follows that the £1 notes being abolished, some other form of currency must take its place; if such a currency could

be obtained at less cost than the £1 notes, then a saving has been effected; but, if some more valuable medium was chosen for sums below £5, such as gold, a metal difficult to be obtained, an expensive process of coining required in connection with it, and subject to continual deterioration from loss caused by its passing from one hand to another, then on these grounds *alone*, there has been national loss.

Both notes and gold are but the means employed to *represent* material wealth, which consists of property in lands, houses, merchandise, &c.

The more expensive the current representatives of wealth are, in the same proportion is the loss which results from their adoption; and if the amount of such loss could be ascertained since 1825, it would be found that on that account, if on no other, a change had then been made

which was erroneous; a greater evil than this loss, however, has been the result of the abolition of £1 notes in England, for it is evident that a much larger amount of gold must be now held by bankers, than would be the case were £1 notes employed; *then* the banker would ordinarily be asked to change a £1 note only, whereas at present he is required to give sovereigns for a £5 note, could he change a £5 note by five £1 notes, he would not need to hold the amount he now does to turn his notes into gold when demanded; and such £1 notes issued by bankers would diminish also that hoarding of gold by them to pay their notes in coin, which so much increases pressure at times when gold, in consequence of unfavourable exchanges, has been largely withdrawn from the Bank of England, and exported to meet payments abroad. A severe pressure for gold may exist at

the Bank of England, while the country bankers' circulation is comparatively undisturbed; but these bankers are holding at such times large reserves of gold, which would not, to such an extent at least, be the case with a £1 note issue.

By an issue of £1 notes, the inconvenience and risk of large amounts of gold being carried about by various persons, such as farmers and others, would be avoided. It must not be forgotten also, that a great number of transactions would be much facilitated, more especially in country districts, were smaller notes than £5 current. This has been found the case in Scotland, where such an issue has been in existence for many years, with the most beneficial effects; and in Ireland also. And if in these countries an evident advantage is derived from such a note issue, why not in England. To a very large extent in all three countries the transac-

tions to be settled are pretty much alike; and it is difficult to see why such a difference in the English mode of settlement should exist. £1 notes were suppressed in England because it was erroneously supposed that they had encouraged speculation and induced panic; but the fallacy of such a view has been shewn by the periodical recurrence of such events, long after the £1 notes had passed from existence.

It may be interesting to know the actual working of the £1 note system in Scotland and Ireland, and with this view beginning with Scotland, we quote from a letter written by Mr. Robert Bell, late Manager of the City of Glasgow Bank, Edinburgh:—

"Our £1 notes connect and familiarise every artisan and labourer in the country with our banking establishments; and the implicit confidence in our paper currency thus created, and perpetuated by the general expe-

rience of the sufficiency of our banks, has on many occasions been remarkably illustrated. It is not exaggeration to say, that at this moment nine-tenths of the labouring classes of Scotland, if they had their choice, would prefer a £1 note to a sovereign; and as a consequence of this feeling of security, combined with the other advantages of the system, no one in Scotland can have forgotten the truly national stand, on behalf of our currency, which was made by rich and poor in the year 1825, when your English economists proposed to visit us with an injury similar to that which was in that year inflicted on England; no mercantile convulsion has hitherto created any general run on our great joint-stock banks. It has been otherwise in England, where, in consequence of legislative enactments, the public have been taught to regard gold and silver as the only representatives of value. The bond of

union between the banks and the mass of the people has thus been severed; and when a monetary crisis occurs, its consequences are incalculably more injurious. With us, though very rarely, runs have been occasionally made on particular banks, but it has been merely to withdraw a deposit from one bank to place it in another; or to exchange the notes of a suspected bank for the notes of one of our National Joint-Stock Banks; the prevailing confidence in our paper currency remaining unshaken. In this way the disposable banking capital or reserves remain in the aggregate unchanged; whereas, with you, the run is for gold, and the coin thus withdrawn from one bank is not re-deposited in another, but hoarded till the panic is over, by which means the entire banking resources of the country are involved in the consequences of the temporary disaster, and this, too, at the very time when those resources are most needed."

With reference to this letter, which was addressed to Mr. Gilbart, late manager of the London and Westminster Bank,* Mr. Gilbart remarks—"Gold is the idol of our English currency theory. The Scottish bankers are too wise to issue gold unless when it is demanded; and the public are too wise to make such a demand. Disastrous for Scotland will be the day when the people shall become inoculated with the love of a gold currency. The effect of such a desire is strikingly exhibited in England in seasons of pressure. When such pressures occur in Scotland, bankers, unlike those in England, can employ their whole resources to assist their customers, and to support public credit." And bearing on the same point, the then secretary of the Commercial Bank of Scotland, stated to the Committee of the House

* All the letters quoted here are extracted from "Gilbart's Practical Treatise on Banking." Bell and Daldy, London.

of Lords, that the abolition of notes under £5 would produce the following results:— "We should diminish the number of our branches; because we should be involved in an expense in the transmission of gold which the profits arising out of our branches would never compensate. They are not the most profitable part of our business; they are attended with a great many hazards and disadvantages. We should withdraw our cash accounts (advances made on security of one or more sureties); because they could no longer accomplish the end for which they were granted, which was, the maintaining our circulation, especially of our small notes. We should diminish the interest of our deposit accounts; because we should then be required to keep a very large amount of dead stock of gold in our coffers, to meet the constant variations that would arise, and to keep it wholly unproductive. I imagine

that, if a gold currency were substituted for a small note currency, there would be a much greater amount of gold than there is at present of notes. We have at present, in order to meet the constant variations, a large amount of notes constantly in hand; and, in the same way, we should require a stock of gold; and that would be proportionately larger, as the general circulation would be greater."

It is evident, from these statements, that the £1 note system has been attended in Scotland with the most beneficial results in every respect; and, that their suppression there, would produce injury and inflict suffering on all classes. It is very worthy of notice, that the working classes have, by such a circulation, been familiarised with banking arrangements; so much so, indeed, that they would, as one competent authority remarks, prefer a £1 note to a sovereign. In

England, it is precisely the reverse. On a pressure occurring there, the general demand is for Bank of England notes or gold; and, as gold controls the issue of notes from the Bank of England, this demand for gold enormously aggravates the effect of such a pressure. As Mr. Gilbart aptly expresses it, it is this "inoculation of the English people," by unwise enactments, of the love of a gold currency, to which we must attribute many of the evils resulting in commercial panic; but, in Scotland, where scarcely any gold circulates, financial panics are almost unknown.

Let us now see how the £1 notes work in developing the various resources of Scotland. Speaking of the inconveniences which he fears would result from the introduction of a metallic currency into his district of Scotland, the agent of a bank at Inverary writes thus:—"With regard to the proposed

measure for suppressing bank notes in Scotland for less than £5, I think it would be ruinous to this country; for I cannot see how, if it takes place, its business can be carried on: cattle are brought to the country markets by the breeders (chiefly small farmers), every man attending his own, and having, generally, from one to three young animals for sale; there they are met by the dealers and graziers, who purchase such of the beasts as suit them; and it is seldom that a single animal, at the age of one or two years (being the ages at which they sell them to the dealers and graziers), comes to the price of £5; the price is more frequently from two to four pounds: of these a dealer often purchases 200 or 300 in single beasts; so that, he has more than one, and less than five pounds, to pay to each of as many sellers; but he has no notes under £5, and the sellers are not able

to return the balance in coin; how is the difficulty to be removed? The dealers must all come loaded with gold and silver. This they cannot carry, to the necessary amount; and they will not be supplied by banks with gold and silver for their bills, by which there would be no profit. Thus a difficulty is cast in the way of disposing of this material article of Highland produce, which must discourage the sales and occasion a reduction of price, and, consequently, of the rent and value of land. It is the same in the case of grain (chiefly sold by small farmers to the distilleries); the purchasers and manufacturers of wood and bark, and of seaweed for kelp, who require many hands, and pay generally once a month, none of them drawing so small a sum as £1, nor so large a sum as £5, will experience the same difficulty. In the herring fishery, the value of each boat's fishing for a night

sometimes exceeds £5; but is generally under it; and there are, in this fishery station alone, 1,000 boats to be paid off every morning, of which, most probably, two-thirds have to receive less than £5 each. It will be impossible to provide gold and silver sufficient for such a purpose; and in the remote parts of the North Highlands, where the fishery is more extensive, and banks at a greater distance, the difficulty is insuperable. Cattle dealers, and all others having to pay away money in small sums to a number of people, as in the instances mentioned, supply themselves with a mixture of notes, some large and some small, accompanied by a few pounds of silver, and everything goes on well. If small notes be superseded and gold substituted, it is not easy to see how the supply of gold is to be kept up, to carry on the business and transactions of this country. A person having to

pay in small sums will be obliged to send his large notes to the bank which issued them, perhaps 100 miles off, to receive gold and silver in their place. The conveyance of the coin to him has next to be provided for. He must either employ a carrier, moving too slowly for his needs, or be at the expense of sending a trusty person for the treasure. Many other difficulties and inconveniences will occur. It appears extremely hard that the Scotch system should be disturbed, and that we should be obliged to adopt one not only unsuitable to our purpose, but ruinous to the business of our country."

With respect to the benefits arising from notes of £1 in Ireland, the following extracts from the evidence given before the Parliamentary Committee will be found conclusive. The Solicitor of the Provincial Bank of Ireland says:—"If the banks were prevented

issuing notes under £5, the trade of Ireland generally, and especially in the South of Ireland, would be greatly inconvenienced, and the growth of manufactures would be decidedly checked, if not destroyed, by such a measure, from the great subdivision of land in Ireland, particularly in the South and West, where the population is almost exclusively agricultural, the produce is disposed of in small portions, scarcely ever representing £5, and almost universally under that amount. I am of opinion that the withdrawal of all notes under that amount would have the effect of curtailing the accommodation the banks now afford to the public, to a ruinous extent, and that the trade of the country, under such circumstances, would not afford profitable employment for banking capital to any extent." The Agent of the Northern Bank, at Armagh, states:—"The people of the North of Ireland decidedly prefer notes;

there are many reasons I could assign for this preference. If a man should lose notes, or a house be robbed, or if there is a forgery, it would be much easier for them to trace notes than it would gold. I have often assisted poor people in tracing notes that were robbed, and forged notes, whereas the gold could not be traced so readily." The Agent of the Belfast Bank at Londonderry:—"My linen buyers go to the country markets; I supply them with a week's money before they start, perhaps £500 or £1000; they make their purchases all in small quantities, and it is more convenient for them to carry notes than gold." A Director of the Bank of Ireland says:—"The profits of the bankers, through their principal circulation being in small notes, would suffer." H. A. Douglas, Director of the Provincial Bank of Ireland, says:—"If the issue of small notes be withdrawn, then we cannot afford to allow

interest on deposits." A Local Director of the Provincial Bank of Ireland, at Waterford, says:—"I should very much apprehend, that if no notes below £5 were issued in Ireland, that the gold circulation would at times be withdrawn in a very great degree from the country; whenever gold was wanted in London, for instance, a small premium on a sovereign would induce a vast quantity of them to be brought out of Ireland." John Robinson Pim, merchant, in Dublin, says:—"The very idea of curtailing the currency under £5 would have a tendency to discourage all adventure in Ireland at present; I fancy it would reduce property very much in that country."

We have thus seen the working of a £1 note issue in Scotland and Ireland, and we find the unanimous testimony of all persons competent to speak on the point, represents it as of the greatest value to these countries;

we have seen that in facilitating small transactions, especially in country districts, it is invaluable, and that it has familiarised all classes, and directly connected them with, the banks of the country; this has induced the lower classes especially to leave their savings in the hands of the banks, so that the whole surplus capital of the country has thus, through the banks, been most beneficially lent out to carry on various trades or enterprises, which, in their turn, have enriched and benefited the depositors, through whose savings they were carried on. But, undoubtedly, the greatest benefit which £1 notes have conferred upon these nations is, that instead of having been trained to consider gold as the only representative of value, they have relied upon their paper currency, knowing, as they do, that it is secured to them by the property of the best and most substantial names of the country; conse-

quently those runs for gold which have worked such havoc in England, have been almost, or altogether, unknown in Scotland or Ireland. They have relied upon their Banking Institutions, and nobly have the banks repaid that confidence by encouraging every proper undertaking, and assisting industry and character in individuals, to the general prosperity of the whole community.

When gold is *exported* to meet payments, it is easy to understand why the foreigner should prefer this metal. It is gold, he knows it is convertible at all times, and is the cosmopolitan standard of value; and as he is ignorant of the circumstances of the persons who guarantee payment of any English bank note, he naturally and reasonably prefers the metal; but we, at home, knowing ourselves the security which exists by means of the bank's shareholders, do not, like the foreigner, require to convince our-

selves by the ocular inspection of the metal, that our money is secure. Could this simple fact but be recognised in England, and by means of a proper note issue be acted upon, it would, say at a time of bad harvest, enable us to export large amounts of gold to buy grain with little difficulty; whereas, at present, it is attended with a general and unnecessary rise in the value of that circulating medium which represents property, and, consequently, a depreciation of that property itself. And should a greater drain for gold arise, consequent upon foreign war, under the present arrangements the rate of interest for money must be ruinously high; and it is difficult to see, should such a war exist for any length of time, where gold is to be obtained, without an enormous depreciation of national property; and it is pretty evident, that could our coin by a note issue of small amount be judiciously economised at all

times, but more especially at such a time, we should have a steadier average amount of coin in the banks, a more equal rate for money, and the consequences of a large export of gold would be much less felt.

Considering that the £1 notes of England were suppressed, as we have seen, through erroneous views entertained in 1829 of their having produced panic, &c., which fallacy has, since their suppression, been amply refuted by the perpetual recurrence of pressure and panic; considering that Scotland, after long experience, speaks unanimously in its favour, as both drawing out the deposits of the country and preventing runs for gold; considering, also, that the experience of Ireland, where such a circulation has been long tried, speaks unanimously in its favour, we arrive at the conclusion that we have made a mistake in England by sup-

pressing such a circulation; and that had we possessed it as Scotland and Ireland have happily done, we should have been spared some of those pressures and panics which have involved hundreds and thousands in ruin, and saved ourselves, like Scotland and Ireland, from that inordinate thirst for gold which is unnecessary in our home circulation, and has been created among the English people by unwise legislative enactments. Such enactments have weaned from the banks vast numbers of the artizan and labouring classes, both in town and country, whose aggregated savings, had they been taught to deposit them in the banks of the country, would have immensely increased their power to develope its resources.

That these are not imaginary results, or overstated, is conclusively shewn by the experience of the countries we have named, where a happy exemption from runs for

gold, and consequent panic, exists; with both of which we are unfortunately but too familiar in England.

PANICS.

THE word Panic takes its origin from the story that at Marathon, where the slender forces of the Greeks were opposed to a much greater number of Persians, a sudden and uncontrollable terror seized the latter, of which the Greeks at once availed themselves and conquered; asserting that Pan had frightened their opponents, and given them the victory. An impulsive act of self-preservation, from some real or supposed danger, in which reason is for the time overcome, is a panic; and, humiliating though the reflection is, it shows itself among all

animals in pretty much the same way, whether it be a stampede of bison rushing over the Western Prairies; wild horses galloping madly across the Pampas; a crowd of frightened animals in an African hopo; a yelling crowd of gold speculators in New York; or a furious mob of commercial gamblers on the London Exchange—men in moments like these flee madly to any point of seeming safety, and, in their frantic efforts to reach it, the destruction they carry in their path is all unheeded. The snapping of a twig startling one buffalo may result in the destruction of thousands; and a whisper may raise a panic among men.

It is curious to observe that such a condition is only the accelerated action of a healthy principle. On the Stock Exchange, we see daily the normal condition of panic; once every ten years or so the abnormal. Shares every day are sold there, their

owner believing the price is about to fall —this is rudimentary panic; but let his fears be communicated to large numbers of men, who sell at any price, and we have a malignant form of panic; add to this an impossibility of selling, and we have panic in its deadliest form; the results of which are bankruptcy and ruin, and a prostration of trade for months, or it may be for years to come.

Is it not a disgrace to a great commercial and wealthy country like this, that while our history in the past has repeatedly warned us of the dangers incurred at such times; we look for the arrival of a panic with pretty much the same feelings a seaman looks out for a storm; something he must make up his mind to go through, as best he can, but which it is impossible to escape; we can even calculate the time about which a panic is due—every ten years large,

with small ones between—and it seems to be taken for granted that these things are a necessary accompaniment to commerce, which cannot be prevented. To an acquiesence in this bad state of affairs we are inclined to demur. No sailor can control the typhoon, or the cyclone, but he can sail out of them with small damage by a little foresight; and if such wild forces as these can be circumvented, much more surely can those be controlled whose causes are largely of our own making, and whose action and results we can correctly tabulate.

If the causes of commercial panic cannot be prevented, if the root of the evil cannot be reached, panic is uncontrollable; for the power of reasoning has gone when the terrible impulse of fear sets in, the instincts of the animal alone act. But if the causes producing such results can be reached, then let us control their future

action, so that when the storm comes it may find us prepared.

What is the cause of commercial panic? We cannot look for it within men, it comes from without. To trace its course from the beginning to the fatal end, we must consider a variety of forces which have either gradually or suddenly accumulated, and concentrated themselves in one tremendous drain on the financial heart of the country—the Bank of England. We shall divide our subject into Panic Simple, and Panic Compound.

In Panic Simple, say a run on a country bank, we notice, first, that the cause which compels the banks' depositors to demand their money, is a fear, well-grounded or otherwise, that the bank is approaching a condition when it may not be able to return to them that money which they have placed in its hands.

The ordinary amount kept in the till speedily disappears, and all available amounts at call are realised.

The run continues.

Bills, which have been discounted, which a prudent banker will always keep sacredly as his reserve, are now re-discounted, and if the bank has been managed on sound principles, and has not locked up its deposits in overdrawn accounts, but invested them in easily convertible securities, the necessary cash is forthcoming, the depositors are paid, and the run ceases.

But, suppose that the principles of sound banking have not been understood, or practised, which comes to the same thing, and that depositors' money has been invested in advances on land, or similar property, then it is quite clear that, as the depositor cannot be handed either a house or an acre of land, the bank, even while it thus holds full secu-

rity, must stop payment. In the first case, the run was harmless, because the banking was sound, and the reserve ready to fall back upon: in the latter, the bank had, by bad management, degenerated into an institution for effecting mortgages; depositors would have their money locked-up most inconveniently, and such a bank would ultimately be wound up at great loss to its shareholders.

This Simple Panic contains the germ of the Compound form.

Very little may have raised the whirlwind we have described; one of the banks' notes refused, a bad loss it was supposed to have met, a look, a word, some little spark kindled the fire which blazed so fiercely.

Now let us look at Panic Compound. In London, for some time previously, money has been at a low rate; this has induced persons to borrow from the banks, to embark

in speculative enterprises; perhaps large sums of gold have been sent out of the country to pay for grain, or a large foreign loan; this has compelled the Bank of England to reduce its circulation of notes, the Act of 1844 requiring that the Bank should issue notes just when they are not wanted; that is, when gold is being poured into the Bank, and curtail its issue just when it is wanted, that is, when gold is leaving the Bank.

The bank rate of interest has risen rapidly; only bills of the highest character can be discounted. And now a disastrous but natural feature appears; the bankers increase their usual reserves of coin, in anticipation of the withdrawal of their deposits; this locks up a large amount of notes and gold, increasing the pressure. The weaker houses find their usual channels of raising money by discounting bills blocked—they therefore

fail; this causes other houses expecting remittances from them to apply for assistance to their bankers.

The rate of money still rises; gold is being steadily exported; note circulation still further contracts; no favourable exchange sends gold back into the bank.

Larger houses fail, unable to obtain discounts; pressure increases; the rate rises again, and crash after crash echoes a dismal accompaniment. The Bank of England, with her circulation rapidly contracting, now resembles a reservoir, whose solitary outlet is closing rapidly; a struggling crowd freely offer property in exchange for a supply of notes or gold, and cannot obtain either. Suspension of payment and bankruptcy stare them in the face; distress reigns on every side; and in agony, amid the insolvency of solvent men, unable to convert their goods into gold, the Act of

1844 is suspended; the Bank issues independently of gold; discounts are at once obtained; engagements met; distress disappears; the panic has gone, but it has ruined not only men who were insolvent, but men who were compelled to suspend payment solely in consequence of being unable to obtain *temporary* assistance to meet pressing engagements. The result of all this is a great loss to the country, not only in a pecuniary sense, but in a stagnation of trade, which means that thousands are deprived of the ordinary means of gaining their daily bread.

When a man enters upon a long course of speculation, in the hope of amassing money by a stroke, instead of the slow but sure means of industry and frugality, and such speculations turn out ruinous, instead of profitable; or where a number of men unite in such ventures, it is obvious that, as their

schemes have been abortive, they cannot be kept out of the Gazette by any system, however well based, or of financial laws, however sound. Such men deserve to suffer, but the large class which has not speculated ought not to suffer with them; neither should the Act of 1844, if it is to continue an Act, be placed in the position of stultifying itself by being suspended.

Whatever may have been the causes inducing a pressure which has resulted in panic, its culminating point has been the Bank of England; and failure to obtain money on ordinary security to meet engagements, has been the ultimate cause of solvent firms suspending payment; the *representative* of wealth had become so scarce that it could not be obtained on any terms. The foolish speculator falls with his schemes then, as he would at any time; and houses of insufficient capital fall also. With these we

have no sympathy, but the havoc which is engendered, apart from them, ought to be removed; and as the cause of such distress has been the difficulty or impossibility of converting *wealth* into *money*, we think measures might be adopted which, while retaining the Act of 1844, would prevent the evils which result from a circulation depending on the amount of gold in the Bank of England.

It must be kept in mind that notes possess value as being the *representatives of material wealth;* and, at such a time as we have described, note issues should be based, *not upon gold, but upon material wealth itself.* How can this be effected? We think in the following manner:—

That, on the Bank of England rate for money rising to 7 per cent., every joint-stock bank in England should be permitted, on depositing with the Government a

preferential bond on a fixed amount of its *uncalled-up capital*, to issue notes to that amount; that these notes shall be so issued until the Bank rate falls to 4 per cent., when these special issues shall cease, and the amount be repaid by the various banks to the Government within three months afterwards. That these notes shall be issued only at the Bank of England, and bear the name of the Bank on whose behalf they are given out; that they shall be issued for so small a sum as £1; that the bank issuing shall be liable for converting them into gold; that the Government shall charge a small commission on the total amount of such notes issued by each bank; and that private bankers depositing deeds of real property, shall also possess this privilege.

Panic or pressure could not then continue, for this general issue would at once relieve the circulation; such a note issue

would have a real, as well as a preferential, value, being guaranteed by the banks' shareholders, and their property the base on which it would securely rest.

We cannot suppose that this would induce the discounting bills for weak firms; for that is supposing bankers would depart from the ordinary caution and prudence which guide them under any circumstances; while the liability of having to pay such notes in gold on demand, would make them unusually careful in issuing them. The bankers would obtain, through the agency of the Bank of England, notes from the Government as required; the Government being merely in the position of a bank which had allowed them an advance upon a certain security, to be repaid at a certain time, such advance, in whole or in part, to be drawn upon or not, as required by circumstances. It is obvious that, by this arrangement, no sudden infla-

tion of the currency could arise, because the banks would draw and issue such notes only as required; and so soon as gold returned to its normal amount in the Bank of England, such occasion to use this special reserve of notes would pass away, and the amount be repaid; while it is highly probable that the gold such a £1 issue would relieve, would rapidly bring about the normal condition of the Bank of England return.

As it is the depositors withdrawing their funds at such a time from any bank, which constitutes the main drain upon it, so it would be the depositors who would reap the benefit of that reserve of uncalled-up capital which is intended mainly for their security. We propose that this same provision should extend to joint-stock banks on which a run has begun, and that on the above security they should be able to issue at the interest of the day;

but that they should, by call or otherwise, repay it within three months, as in the other case. There cannot be any doubt that such a provision would save many a bank; save its shareholders from great loss, and its depositors from a lock-up of their money. Such a provision could not in any way bolster up an insolvent bank, the notes being compelled repayment within the time above-mentioned; while its depositors would, if the bank actually stopped after the end of three months, have already received the whole or a considerable part of their money, instead of having to wait for it, in the usual course of liquidation.

Another feature, of which we must not lose sight, is the fact, that the knowledge of the pressure never being able to rise beyond a certain limit, represented by the Bank of England rate of 7 per cent., would prevent much of that hoarding of notes and coin by

bankers, which at present very naturally occurs at such a time; they would have no particular inducement then to do so, and so much the more would the tightened circulation be relieved. In the case of the panic of 1847, £4,000,000 of notes were thus said to have been hoarded. Such an amount as this set free, by the knowledge that no necessity existed for hoarding, would, during pressure, be of immense advantage.

If we study the history of commercial panics, we shall find that while pressure was mainly caused by the absence of a circulating medium, this hoarding by the banks, produced by a fear that the circulation would be still more curtailed, has greatly increased the evil. This fear would be removed; and the banker consequently relieved from keeping a large reserve to meet the expected contingency engendered by such fears. And the probability is,

that while under the present arrangements 7 per cent. for money would be soon reached, fear driving it up, under the system here proposed, with this element of fear not influencing people, and causing them to hoard, such a rate for money would be much less frequently reached, and the general profit and comfort of the community be so much the more increased. Could this arrangement do no more than eliminate this element of fear from commercial pressures it would do much.

How would this note issue operate outside the banks? First: while it would not remove any of the banker's usual prudence and caution in affording assistance either by discounting bills or making advances, it would enable him to assist deserving houses who had a legitimate claim upon him to a much greater extent than he can possibly do at present, however willing.

The result would be, that solvent houses would be prevented from failing, which they now do at such a time, because they cannot obtain advances on security which has been depreciated in value by a temporary tightness of the money market; and the preposterous anomaly is witnessed of offering an amount of actual wealth for its *representative*, bank notes, or gold—without being able to obtain it. Of the amount of national distress and loss which would be averted by the non-failing of such houses, it is unnecessary here to speak, we are too familiar with it. It is very possible that on the rate rising to 7 per cent., comparatively few banks would require to avail themselves of such an issue; their usual resources, and the amount set free by non-hoarding, would in most cases be found sufficient to meet all proper demands.

Let us now briefly summarise these re-

marks. First: We have found that whatever may be the inducing causes of monetary pressure, it ultimately culminates at one point—The Bank of England. Second: That under present arrangements, owing to the absence of gold producing a curtailment of the note circulation, the circulating representative of property—gold or notes—becomes quite inadequate to supply the demand made for it by safe and solvent persons, on security. Third: That such persons and companies at such times suspend payment, and occasion vast loss and great distress in the country. Fourth: That the real wealth of the country—lands or merchandise, etc., possessed by a bank's shareholders—is a better security on which to base a note issue at such a time than gold, which is only *another representative* of the actual wealth of the country. Fifth: That a note issue from the Government, of

bank notes, when the rate for money was 7 per cent., based upon and secured by a part of the uncalled-up capital of any joint-stock bank, returnable in three months after the rate fell to 4 per cent. would prevent undue pressure at the Bank of England. Sixth: That the depositors of banks, for whose security such uncalled-up capital is reserved, would be receiving in this manner the benefits of that security; and as a very heavy part of the drain at such times is from depositors, their security would not be in any way interfered with. Seventh: Being intended also to meet a run upon any particular bank, such a measure would in many cases save such bank from failure, and its depositors and shareholders much loss and inconvenience. And last: That no existing arrangements of the Bank of England, or the Act of 1844, are interfered with.

Such appear the advantages of the system.

Against its adoption it may be objected—and any other objection is difficult to see—that the employment of any part of a bank's uncalled-up capital to discount bills, or assist solvent firms, is an error. But if we look candidly at the benefits such a system would confer, this objection will not stand; for bankers would not then depart from their ordinary safe rules as to discounting; and the amount of uncalled-up capital assigned to Government at such a time would form a very small portion of the whole.

By restoring and maintaining confidence, such a note issue would probably rarely be required at all; and, if used, would be almost immediately repaid. The security of the depositor is in no way interfered with; and in the case of a run upon a bank, the interests of the depositors and shareholders are much better preserved by this method than at present; and bankers being enabled

in this manner to meet proper requests, at periods of pressure, for assistance, could readily and safely do so, without loss to themselves, and with great benefit, not only to the trading community, but to the country.

CONSOL NOTES.

One Bank of Issue. Such has been the bright but Utopian vision which has dazzled the eyes of some. One fallacy underlies it, —it is a monopoly of a large source of profit; and, after our experience of monopolies, we know that all such attempts to enrich few, are effected at the cost of many. It places a nation virtually at the mercy of one or two individuals; and, as these persons are human beings, prone to consider their own wants of primary importance, and the wants of others as secondary matters, their possession of such power is subversive not only of the

best interests of the public, but reflexly of their own.

If we look at the results which legislation has achieved in England with regard to note issues, we cannot but be struck with the charming variety which exists. First, we observe private banks issuing notes on the credit of one or two persons; then we have some of the joint-stock banks allowed to issue notes on the security of their shareholders; this is, however, merely an accident of birth, for with them exist other joint-stock banks, which, having been born a little later, are not allowed to issue notes at all; and last, the Bank of England with its large issue, when necessary, having an Act of Parliament suspended that it may issue more. Why it should possess such a privilege is to some extent explained by the fact, that at a time of need it lent the British Government a large sum of money, and against this loan it

is allowed to issue notes, and also against gold held in its coffers.

The primary requirement of a note circulation is, that it shall be convertible into gold by the holder, on demand. If all other banks, therefore, can fulfil this condition, ought not all to have power to issue?

Believing that a proper basis for fulfilling this condition exists, we propose now to consider on what security every banker in England might with safety to the public, and profit to himself, issue notes.

Such a basis is found in Consols.

The ordinary note rests either on the security of shareholders, or that of a private banker; but notes issued only against a deposit of English Government Stock, would rest on security as stable as the credit of the country itself. This is really the principle on which the Bank of England is allowed to issue a large portion of its notes—money

borrowed by the Government; the credit of the country is therefore pledged for that sum to the Bank of England, and it is difficult to see on what ground an objection can be taken to carrying out this principle. Every investor in the English funds is secured by the guarantee of England; every bank, therefore, which held Consols against its note circulation, would offer to the public a similar guarantee.

Such security for a note issue is preferable to the collective security of shareholders, however numerous, of any bank, or that of the private banker. The private bankers, who are the issuers of notes for a very large sum, are highly respectable; and, were the public to require it, they would be ready, no doubt, to submit for its inspection something more tangible than the names of their partners. But is it not a curious anomaly, that the law allows a private banker

to contract debts with the public by means of his note issue, and otherwise, without further guarantee than the names of his partners; taking no steps to ascertain his power to meet his liabilities, while it refuses to allow many joint-stock banks to issue notes, though compelling them to make returns of all their shareholders, of all transfers of shares, and to exhibit public statements of their assets and liabilities.

Consol Notes made a legal tender, except by the issuing bank, would not only be of service at ordinary times, but in seasons of pressure for gold, the points of attack would be too numerous to produce that concentrated mischief which is now the result of the Bank of England bearing this strain alone. We need not remind the reader how disastrous these times of panic are; how fortunes accumulated with patient industry are quickly trodden in the dust, in the insane race for

gold or notes, and how terribly commerce suffers from such causes.

Little doubt can exist that had country bankers the power to issue Consol Notes of such an amount as £1, it would prevent much of that hoarding of gold which occurs in town and country banks at times of pressure. Such notes would place the present gold circulation to a large extent in the hands of the bankers; and as panic in London does not necessitate a run for gold throughout the country, this would enable the country bankers to spare coin from their own reserves to relieve pressure there: and the probability is, that this being known, would itself do much to prevent panic, for we now know that the suspension of the Bank Act at once diminishes pressure.

This £1 issue would also connect all classes, the lower especially, with banking institutions, and bring them and their sav-

ings to the banks. Such has been the result of the £1 note system in Scotland, even with the note secured in the ordinary manner; and could the savings of the working classes of England find their way into the banks in a similar way, it would enable the banks to a much greater extent, and at a cheaper rate, to encourage and foster every proper enterprise. The English banking system in this respect has yet a large field to occupy. The savings' banks to some extent absorb the savings of the working classes, but to a very small amount as compared with the whole; and even the sums lodged in the savings' banks, if properly lent out by a banker, would be much more profitably employed than at present. For example, how prodigiously might the manufacturing power of the country be increased were the savings of the class named employed in carrying out even their own co-operative undertakings.

If every banker issuing Consol Notes was himself responsible for their being converted into gold on demand, it would be to his interest, apart from any enactment on the subject, to keep himself always in a position to do so; such a course would compel bankers always to hold a considerable amount of gold, which, as we have said, could be of service at a time of pressure on any particular point, since the country banker could with safety spare a portion of this coin reserve. Another result of a Consol Note issue would be to maintain a steadier value in the price of Government Securities. Supposing a country bank to hold £50,000 of Consols—that amount representing a surplus of deposits not available in the ordinary business of the bank—under existing arrangements, when his depositors make heavy demands upon him, the banker will be obliged to sell his Consols for the purpose

privilege of issue on the secure basis of Government Stock.

Notes of this kind, differing from each other only in the name of the issuing bank, everywhere a legal tender except at such bank, secured by the guarantee of the country, would be equivalent to one Bank of Issue; and it is possible that such notes, known to be guaranteed in such a manner, might become to a very considerable extent as negotiable abroad as an English sovereign now is, being really English Consols in circulation; and thus the anomaly we witness at present—carrying gold at great expense and risk from a bank safe in one country to a bank safe in another country, might be, to some extent at least, rendered unnecessary, by Consol Notes taking its place.

If a banker can now make 3 per cent. interest by investing his deposits in Consols,

and he allows his depositor only 2 per cent. for such deposits, his profit is 1 per cent.—the difference between the interest he pays for the money placed in his hands, and the interest paid by the Stock in which he has invested such deposits. Now to place such deposits in Consols for the purpose of getting notes, would materially change his position as regards profit; for he would now obtain the interest on his Consols as before, and receive in addition to this the profit arising from placing the notes he issues against these Consols in some other investment, until his depositor withdrew his money. But in this way the Government would merely increase the profits of bankers by giving them the privilege of issuing notes, from which the country would not directly appear to derive any benefit.

In such circumstances, therefore, it would be perfectly fair that the Government should

obtain a direct profit on such note issues, *by paying a lower rate of interest to the bankers who placed their deposits in Consols to obtain a note issue.*

Considering the extra profit obtained through an issue of Consol Notes, such bankers might be paid a dividend on their Consols by the Government, at, say only 2 per cent., instead of 3 per cent. Supposing the banker placed his Consol Notes in the hands of a London Bill Broker, until he required them to repay his depositor; then taking the average value of money at call in London as $2\frac{1}{2}$ per cent., the banker would receive $4\frac{1}{2}$ per cent. in all; say less 2 per cent. for the depositor. Allowing for the banker requiring to hold a larger amount of gold to change his notes, he would thus possess a very considerably larger profit than the one per cent. he had before. It would, therefore, be for the banker's advantage to

turn his deposits into Consol Notes; and for the interest of the Government to permit him to do so. The banker makes a larger profit than he can at present do if he buys Consols, and the Government on all the Consols so held has one per cent. less interest to pay.

Such a circulation would not only be a source of profit to the individual banker; a real security for the public note holder; but, also, a source of profit to the country; not only indirectly, but in the first instance. In the same proportion as bankers so invested their deposits, would the interest on Consols, that is, the National Debt, diminish; and, in the same proportion would the general taxation of the country be lessened.

Taking the note circulation of England as £30,000,000, were this sum invested in Consols, as here named, the interest on the National Debt would be diminished

£300,000 yearly; the interest at present paid on £30,000,000, at 3 per cent. is £900,000; but as the bankers would receive only 2 per cent., instead of 3 per cent., the interest then to be paid to them would be only two-thirds of the above amount, or £600,000; more than a quarter of a million saved yearly by the country. Multiply this yearly saving by 10 or 20 years, or more, and the result will more clearly shew the amount of national gain.

Who has to lose by such a change? Not the nation! It gains at once directly in a pecuniary sense, and it gains largely in another form, if we consider that such a general circulation by all bankers would prevent a concentration of pressure for gold on any one bank, and so, to a considerable extent, if not altogether, prevent panic, and not the banker, for to his present profit he would then add an extra profit.

Such an issue would throw the gold at present circulating in the country largely into the banks; this gold would finally centre in London, and it would not be impossible to arrange from such a nucleus, *a central Gold Bank in London*, as a reserve from which gold required for exportation, or other sudden demand, might be obtained, leaving in their normal state the ordinary gold reserves of the bankers. Such a central Gold Bank would remain as a permanent reserve, unaffected at ordinary times by the usual business arrangements; and in seasons of gold being exported, by steadying the rate for money, free us, to some extent at least, from those violent fluctuations of the rate of interest which are so disastrous to trade.

ABSTRACT
OF BANKING PRINCIPLES.

However familiar the general public may be with Banks, it is comparatively few persons, apart from the profession itself, who have much knowledge of the principles on which the science of Banking is based. As a rule, people know that money is taken to the banker, and lent out by him, and in some way or other profits are made; but of the laws which guide the receiving and lending such monies they know little. To such persons a short abstract of the main principles on which sound banking is based, may prove not uninteresting.

A bank (of course we speak of Joint-Stock Banks) is an association of individuals, who have each a certain stake in the undertaking, represented by the number of shares they individually hold, on each of which they have paid an amount, which varies according to the business and freedom from loss which the bank enjoys. What are called Unlimited Banks, require their shareholders, to the utmost extent of their means, to provide for whatever amount may be called up on their shares, whether such calls exceed the nominal amount of such shares or not. Thus a person with a £50 share of a bank which is unlimited, if it become involved in difficulties, may be called upon for more than this amount. Limited Banks, in such a case, would require their shareholders only to be liable for £50 on each share. In both unlimited and limited banks, a comparatively small sum has, as a rule, been called up from

the shareholders; the amount actually called up is the bank's working capital, that remaining uncalled is its nominal capital, which remains as a security for the bank's depositors.

There are two classes into which a banker must naturally divide the customers of his bank. First, those who lend him money; and, second, those to whom he has lent money. The first of these is again divided into two distinct classes. First, the shareholders who have paid their money as the capital; and then the public depositors who have left money with him, which they intend sooner or later to withdraw.

The first care and duty of a banker is always to be in a position to meet his liabilities.

Now, if this is so, it follows that the public depositors' money he holds must always be invested in such a way that, while

it yields him a profit sufficient to pay interest to its proper owner, and leaves a margin of profit for himself, he can at any time readily return it in the form of money to his depositors. His shareholders' capital not being liable to withdrawal, leaves him free to invest it in a manner which does not admit of such rapid conversion into actual money as the other. The public depositors' money, then, is the one which he must at all times be ready to return; and for all ordinary purposes this may be considered a banker's liability.

To be in a position always to meet this liability, it is necessary *that a banker's own capital be at least equal to the amount of his loans, which could not, at once, be turned into money.* His *investments* of money deposited with him, which he cannot employ in his own business, will, of course, be held in such a manner that he can realise them at once.

If he wishes to make advances to his customers on securities not at once capable of being turned into money, beyond the amount of his paid up capital, he must, in order to do so safely, call up more capital; if he does not, and uses his depositor's money for this purpose, and thus locks it up so that he cannot promptly put his hands upon it to repay his depositors, he has made his first departure from sound banking.

By capital, we mean the amount the banker has free to work with after having provided for all preliminary expenses, buildings, fixtures, &c.

To the objection, the smaller the capital employed, the greater the dividend must necessarily be, there is a sufficient reply in the fact, that the first object of any well-conducted bank is safety and not dividend; the confidence of the public is also thus better obtained, for in seasons of pressure

and panic, a bank riding out the storm with a larger capital than the amount of its inconvertible overdrafts, is in an incomparable safer position than one which, by adopting the opposite course, has become an institution merely for the ephemeral purpose of manufacturing dividends.

A bank must be self-reliant, both in ordinary times and in times of pressure and panic, never depending on the willingness of any bill discounter or other agent to find it funds. In times of pressure, especially, the cry is, Save himself who can! and no prudent banker will allow himself to lean on this crutch. At such a time, depositors being frequently tempted by higher interest offered elsewhere, and from other causes, withdraw large amounts of money; and, as the banker cannot then always depend on having his bills rediscounted, and by this means repaying his depositors, it is evident he can be

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safe only with a large amount of money—proportioned, of course, to his business—lying at call, or invested in securities which are at once realizable; and one very effective means to this end is secured by a good margin of capital.

The public deposits of a bank are of two classes—those payable on demand, and those (generally of large amounts) of which notice must be given for a specified time before withdrawal.

The first of these includes the balances standing at the credit of current accounts, which are liable to be withdrawn by cheques at any time; and deposit receipts, which may be presented for payment "across the counter." It is obvious that deposits at notice are the most valuable of these. In this case, the banker can himself obtain a higher rate of interest for such money; he can, consequently, afford to pay his depositor a higher

rate also. This giving notice for payment of deposit receipts is a healthy principle, and ought in all cases to be taken advantage of, if possible. It is not necessary that the banker actually avail himself of the notice named on the receipt; but he ought to be in a position to demand it; failing this, he may some day find himself very inconveniently placed. A day or two of notice specified on the deposit receipt would save him great trouble, and sometimes risk; for he has thus time to provide for what may be a sudden and very heavy call. Of course, no notice is given for the withdrawal of current account balances—for this he must always be prepared.

We shall now shortly notice the principles on which a Banker invests his Surplus Funds, advances money on security, and discounts bills.

The points to be kept in mind in investing

public deposits are safety, convertibility, and profit.

Looking at these requisites then, safety, convertibility, and profit, we find that, so far as he can obtain sound mercantile bills from his customers for discount, that these, carefully selected, and diligently enquired about, as to the character and position of their acceptors, are a proper outlet for a portion of his deposits. In the ordinary condition of the money market, these bills are readily convertible. Care must be observed, however, that the bank does not unduly discount for any one customer, but that a fair amount of discount is afforded to each, so that undue reliance may not be placed on the stability of any one firm. Having so supplied his discounting wants, he may still possess a surplus of deposits, and we now look at his best means of investing this surplus. The grand requisites of safety, convertibility,

and profit, apply in a double sense to his surplus investments; for it is to them he must look first when any demand for payment of such deposits of any unusual amount is made.

Perhaps it may be as well to say here, that the amount a banker keeps in his till is regulated entirely by local circumstances and the nature of his business; no exact rule can be laid down, but experience will soon show the amount he requires to have thus daily at his hand.

In investing surplus funds, we must find what those investments are which combine in the highest degree the qualities named. The public Government Stocks of Great Britain form, undoubtedly, the best investments for such a surplus. If he can buy such at an average price—say 90, they will yield him a certain and fair percentage. These, and other Government se-

curities, will form his best field; but railway bonds, debentures, gas, water, or Board of Health bonds, or securities of this class, he will studiously avoid; he cannot always depend, in all states of the money market, on finding a buyer for them at once; and this is a necessity for his depositors being promptly paid; while such securities may be safe, (although that is by no means certain) they are, in this respect, useless to a banker.

He will find that the London Bill Brokers will also furnish a good opening for his surplus funds; he will be able to lend them money repayable on demand, at a rate of interest which will vary of course; but which, as a rule, will be more than he has agreed to pay his depositors. The Broker, as security for this money, will send him bills of exchange on first-class business houses, which he retains until maturity. Or he may find it occasionally useful to make short loans on

the Stock Exchange, his object being to obtain a small rate of interest rather than keep his money lying idle.

Although Government securities form his best investment, he ought not on any sudden and temporary increase of his deposits, to place this amount there, for he may be suddenly compelled to sell out at a loss; his best plan, in such circumstances, will be to place such deposits in the hands of the Bill Brokers, payable on demand. Consols are the best kind of stock, money can easily be borrowed on them; this is also a larger stock than the others, and not so easily affected by transactions on it. It is wisest to distribute a banker's surplus funds among all these securities, so that he may not be unduly depending on any one in particular; but, if he should make a decided preference, Government securities, despite their fluctuations, are undoubtedly best.

With regard to what is termed a bank's reserved fund, this ought never to be placed in the business, but in Government securities, ready for any emergency, and preserved from that loss to which his ordinary business is liable; a little larger interest may be obtained by placing it in his business, but this is nothing compared to the safety obtained by placing it in Consols; and the public will be more inclined to place confidence in a bank which shows a large amount in the funds, than in one which does not.

In assisting his customers by loans on security, the banker will be guided by the kind of security offered, and the man with whom he has to deal. And we notice here, that the bank's province is to encourage proper trade and industrial enterprises; and, therefore, no banker can assist anyone to enter on purely speculative undertakings. Whatever the nature of the securities offered

by his customers may be; such advances, whether made in the form of an overdraft on the account or otherwise, ought to be strictly considered as of a temporary character. Dead loans, however good the security, ought to be avoided; such loans are altogether foreign to the business of banking, which is to make short temporary advances on security, whether those securities are bills of exchange discounted; advances by overdraft on deeds of property; on bills of lading, dock warrants, bonds, debentures, or any other kind of security whatever.

No practice can be worse than that of making dead loans; the money so locked up, instead of being frequently turned over for the benefit of many, and the consequent profit of the banker, is entirely absorbed by one, and cannot, without much trouble and delay, be recalled. It is especially the duty of banks of small

capital and large liabilities to avoid these dead loans, and with this object in view it is very desirable to take, in addition to the security, a bill for the amount from the person to whom such advance is made; this bill can be discounted, and the proceeds placed to the credit of his account. He is thus bound down to time of repayment, and on the bill becoming due, the banker can then say whether he is agreeable to renew the bill or not. Heavy dead loans are the rocks on which many a bank has been wrecked, and a banker must ever remember that he cannot, without great danger to the public and risk to himself, lock up his capital in this manner; and not under any circumstances whatever can he so lock up his public deposits.

With regard to the nature of securities to cover such overdrafts, the best are consols or Government stock, bills of exchange to be

partly drawn against, deeds of property, &c.; but dock warrants, bills of lading, &c., require to be very carefully advanced upon. The worst securities, however, and, indeed, which no prudent banker will ever take, are mills and machinery. When these come to be thrown into the market, if they can be sold at all, it is generally at a great depreciation. On all classes of securities, a wide margin should always be left between the owner's estimate and the banker's advance, so as to allow for contingencies. This is not so applicable to Government securities, though, even here, a margin is advisable; but in deeds of land or houses, railway bonds or debentures, or others, a wide margin should always be given; in the case of deeds, for instance, which ought invariably to be examined by the bank's solicitor, we should say, that two-thirds of the estimated value is the very utmost which ought to be advanced.

No second mortgage on any property ought ever to be taken; unless, unfortunately, by imprudent advances already made, the banker cannot help himself; but as a security in the first instance, it should never be thought of. Shares are also bad security; if calls are made and the person cannot pay, the banker must; and they are always liable to depreciation. It is not advisable to assist persons to speculate, by advancing money on shares on which they have paid only the deposit money; this is not a banker's business, and it is, as a rule, the reverse of kind to the speculator.

Advances on personal security, by one or more persons for another, are largely made in Scotland, and, to a certain extent, in England also; care being taken that the sureties offered are men of character and means; this, bearing in mind that each surety must be expressed as liable for the

full amount of the guarantee, and not for a portion only, is a safe and satisfactory means of judiciously assisting young men of character who, beginning business, have of course no deeds or other securities of this kind, but who can find substantial and wealthy friends to help them. The signatures of the guarantors should always be witnessed by some one in the bank, or if executed at a distance, by persons on whom the bank can rely. These bonds are, of course, payable on demand; and it is a good principle to act upon in all cases, that the value a banker must put on his securities of every kind is not what they are really worth, but what they can fetch on *demand*.

We now proceed to consider the rules which a banker would be guided by, in discounting bills in the ordinary course of his business. This, as we have said, forms one

outlet for his deposits, care being taken that such discounts are proportioned to the legitimate requirements of his customers; the surplus deposits, as we have seen, are otherwise invested, and form a reserve on which he can draw when deposits are suddenly asked for. We may here notice the practice, or occasional practice, of re-discounting bills which the banker has discounted for his customers; we speak now of country bankers, for this practice exists to a small extent only in London, but in the country bankers occasionally do so. A banker who re-discounts constantly, has either too small a capital, or he has locked it imprudently up, or he is not leaving a proper amount of his depositors' money free to meet his ordinary payments; and should a pressure of any magnitude arise, he may find himself in a very awkward position indeed.

A banker's bill box, next to his money in the funds, and at call with the brokers, is his reserve, and ought sacredly to remain untouched until he is compelled by extraordinary circumstances to re-discount the bills which his customers have discounted with him. If he finds himself continually turning to his bill box, and so meeting his payments, his first care should be, if his capital is too small, to have it increased; and if he has locked up his deposits in advances which are inconvertible, he must use every means to recall such advances; or, if he is discounting too heavily, and has too little money lying at call, he must immediately curtail such discounts.

A banker will be guided as to the amount of discount he feels disposed to accord to any one customer, by the character, commercially and otherwise, of the man himself, by the general transactions on his operative

account, by the nature of his business, and by the standing and respectability of the persons who accept such bills. For the latter purpose he keeps a reference book, in which he records the opinions of the various bankers to whom he has referred for information as to the acceptors of such bills; and it is well in connection with this, to obtain through some respectable private information-agent, a trade opinion; so that both the bank and trade opinion may be compared. It will be well also to repeat these enquiries frequently, so as to detect, at an early period, any change in the circumstances of such houses accepting. If he detects any irregularity in such bills, after carefully convincing himself of the fact, his best plan is to refuse to accept bills on persons or houses he is suspicious of, however apparently respectable his customer presenting them for discount may be, for it may

be accepted as a safe rule to go by, that a really good man is not likely to draw bills on bad houses. If after courteously, but frankly, mentioning anything of an irregular character, should his customer still persist in dealing with such houses, the best plan is to refuse such bills altogether. It is a mistake to take a doubtful bill, unless under very exceptional circumstances indeed, from even a good and trustworthy drawer. He ought not—certainly not frequently at all events—to draw on such persons; and, if it often occurs, enquiry should be made as to the kind of transactions such bills represent; men commercially sound, will, as a rule, offer safe bills, and a banker has no business with unsound men, either as drawers or acceptors of bills.

If a banker notices that his customer sends in his bills for discount immediately after they are drawn, and draws out the amount

[illegible] is an [illegible]: the man has [illegible]: a sullen [illegible] time, and [illegible] be the [illegible] on any [illegible] moderately [illegible] corresponding [illegible] addition to [illegible] his account, [illegible] The [illegible] to see that the [illegible] bills on [illegible] and such [illegible] the cus- [illegible] banker to some [illegible] a certain date, [illegible] of the same [illegible] renewals; [illegible] noted, and as far as possible avoided.

It is quite possible, of course, that renewals occasionally are fair assistance to an acceptor temporarily given; but when it occurs habitually, there is something wrong. Double accounts—that is, a person having two accounts at different bankers, ought to be avoided, especially if discounts are obtained at both places; the banker has no opportunity of forming a correct estimate of his customer's business, and it is better to keep clear of such accounts altogether. It is also a safe rule to refuse bills which are known to be frequently taken up with noting; such cannot always be the result of accident; the true reason is, probably, want of funds; and the moment the banker detects his customer either drawing or accepting accommodation bills, the discount account should instantly be closed. A man who is guilty of such an unprincipled act, is one of whom a banker cannot be too soon rid; such bills are not

only dishonest in principle, but they may lead to results of the most serious character, and the safe plan is to shut the door against such bills, and those who deal in them.

It is most important to guard against forged bills. If any doubt exists as to the genuineness of the acceptor's signature, the best plan is to send it to some banker in his neighbourhood, so as to have it verified.

As to Investing Surplus Funds, Advancing Overdrafts on Security, and Discounting Bills, such are the general and broad principles which govern sound banking, anything speculative the writer has not touched upon, as being out of a banker's province. No prudent banker speculates in any form with his surplus or other monies. Such speculations have no connection with the principles of banking, but are evils which spring from the absence of all principle. Neither has anything been said as to com-

mercial panic, pressure, or a run upon the bank itself; a strict adherence to the principles named will place the banker above any fear as to the result, so far as he is concerned, of either pressure, panic, or run. With his bank thus well in hand, he can easily ride out the storm, which will sink others who are more unmanageable, because more heavily and unwisely laden.

It may not be out of place here to say, that straightforward and sincere dealing with all persons the banker may be brought into contact with, is in every respect the most honourable; and, to put it on the lowest ground, the wisest course; and it will be found to be the most satisfactory in the end.

While a prudent reserve will ever characterise a banker, and while he cannot answer unreservedly all questions which he may be asked, yet should the occasion ever arise, when he *must* choose between falsehood and

truth—between an honest statement on the one hand, and a false balance sheet on the other—let him without hesitation choose the truth. Never let him choose a crooked and tortuous policy, but let sincerity and uprightness preserve him. The end of a crooked policy, whether in individual, social, or national life, is disgrace; while, on the contrary, an unflinching adherence to truth will preserve him from those unprincipled courses with which the public, in connection with commercial undertakings, has unhappily become too familiar. Any Public Company which abandons the honest course of simple truth, can never, by any amount of mysterious juggling, long satisfy the public. Sooner or later, such a system will find its proper level in exposure; and, while lamenting the downfall of their dishonest fabrics, the persons who have drifted into such practices, will then have the deeper and

darker anguish of knowing, that they have lost that character, which, once lost, can never be regained, and that self respect on which rests all that is good and great in themselves or others.

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